



Committee On Finance

Max Baucus, Ranking Member

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Statement of Senator Max Baucus, as Prepared U.S. International Trade Commission Steel Safeguard Mid-Term Review

Madam Chairman and Members of the Commission, thank you for the opportunity to appear before you today to testify on behalf of the U.S. steel industry and its workers.

Two years ago, under my Chairmanship, the Finance Committee and the Administration worked together to set the steel safeguard investigation in motion. It was a rare show of unity on an important trade issue.

The Commission, too, made a unified showing. The crisis conditions that faced the steel industry and its workers in the period leading up to 2001 made an overwhelming showing of injury. You recognized that when you voted – unanimously for most products – in favor of relief in this case.

My reasons for sponsoring the steel 201 resolution are different than most. There are no major steel producers in my state of Montana. I sponsored the resolution because it was the right thing to do. And it is my continuing conviction that section 201 must remain a strong and viable remedy against the injurious effects of import surges that brings me here today.

Section 201 has never been a heavily used trade law. But I have long believed that it is a critical trade law and serves an important role in maintaining a consensus for trade liberalization in this country.

As the world's most open economy, the United States has become the dumping ground of last resort for low-priced imports from countries that heavily subsidize their steel industries to produce more than the world market can absorb. These beggar-thy-neighbor policies have created more than 200 million metric tons of world excess steel capacity – enough to fill the U.S. market almost two times over.

Over time, we need to reduce this uneconomic excess capacity and persuade our trading partners to adopt stronger disciplines on steel subsidies. I strongly support the Administration's ongoing efforts at the OECD to do just that. Reducing excess capacity and reigning in unfair

subsidies offer the best long-term hope to eliminate the underlying unfair trading practices that caused the steel crisis.

I do think there is one more piece of the long-term strategy that is still missing. The Administration needs to take a much more aggressive approach to reigning in the WTO dispute resolution process. Until panels properly apply the standard of review, section 201 and our other trade laws will continue to be in jeopardy. One way to make progress toward a solution would be for the Administration to endorse my proposal for a WTO Review Commission. Suffice it to say that, unless we find a solution, the credibility of the WTO dispute settlement system – and the success of the Doha Round – are in serious question.

But these are all long-term projects. Only 16 months ago, the American steel industry faced dozens of bankruptcies, historically low and falling prices, thousands of lost jobs, and critically low capacity utilization. As modern and competitive as it is, it could not wait for a long-term solution under those conditions. The steel industry and its workers needed breathing room. That is what section 201 is all about.

At the time relief was granted, the Administration asked the steel industry to commit to significant restructuring. That is exactly what is happening right now.

The steel industry and its workers are undergoing the most significant restructuring and consolidation in decades. In the 16 months since the safeguard remedy went into effect, the steel industry has invested \$3.6 billion to consolidate and improve productivity.

Steel workers are doing their part, too. The United Steelworkers of America has reached new agreements with ISG and U.S. Steel that will improve the competitiveness of producers while advancing worker interests.

The section 201 measures are pivotal to the continued success of these efforts. Under the best of circumstances, this massive adjustment effort would be difficult. Circumstances are not the best.

Steel imports have continued to rise in many product categories. The manufacturing recession continues unabated. Price increases have been modest. Under these conditions – and in only 16 months – it's a testament to the dedication of steel companies and steel workers that the adjustment process is going so well. If we want to see successful adjustment, it is frankly critical that the import relief continue for the full three years foreseen in the President's proclamation.

It bears recalling that section 201 allows the President to provide an industry with relief for up to 8 years. It is true that compensation obligations under the WTO Safeguard Agreement kick in after 3 years. But Congress has never enacted a 3-year limit on safeguard relief, and the 8-year period provided by U.S. law remains fully consistent with out international obligations.

Clearly, then, the length of relief should be determined based on how extensive an adjustment is needed and how long it will take to accomplish. There is nothing in the law to suggest that Congress intended to limit safeguard relief to 3 years. I find this trend toward safeguard remedies of uniform 3-year duration to be disturbing.

Even more disturbing, however, is the recent tendency to cut off relief after only 18 months. The wheat gluten and lamb safeguards both suffered this fate. Certainly our lamb industry in Montana can tell you that, even with the best adjustment plan and the best intentions, it is unrealistic to expect any industry to make a successful adjustment to import competition in only 18 months.

These remedies were not cut short because the industries failed to follow their adjustment plans. They were cut off under pressure from our trading partners and out of a desire to avoid WTO litigation. Those are not considerations that factor in the law. This kind of flouting of the will of Congress is frankly unacceptable and I do not want to see the practice repeated here.

The legal standard in this mid-term review is straightforward: the President can modify or terminate relief only where the domestic industry has not made adequate efforts to make a positive adjustment to import competition or where changed economic circumstances have impaired the effectiveness of the relief.

I know the Commission is also conducting a section 332 investigation of the effects of the safeguard on steel consumers. As you know, I oppose any linkage between that 332 investigation and this mid-term review. The 332 request was one-sided. And the information it requests is not legally relevant to the outcome of this review.

I believe the facts you collect in this mid-term review will clearly show that the U.S. steel industry and its workers are taking historic steps to adjust to import competition, and that the safeguard measures are playing a critical role in allowing that adjustment to succeed. Under these circumstances, it is imperative that the remedy continue for the full three years.

Thank you for the opportunity to testify today.

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